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SUBJECT: AS CHINESE FAKES INVADE ITALY, COMPANIES FEEL  
FRUSTRATED, POWERLESS

REF: A. ROME 629

[1](#)B. ROME 1900

[1](#)C. ROME 1150

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for Internet publication.

This report was coordinated with Congens Milan and Florence.

[1](#)1. (U) Summary: While famous Italian designers have long been a favored target of imitators world-wide, Italian business and government leaders are quickly realizing that no Italian product, no matter how mundane, is safe from Chinese counterfeiters. Unlike the big fashion houses, most Italian manufacturers of clothing, furniture, plumbing fixtures, and specialized machinery have few resources to effectively defend their intellectual property in the face of this onslaught. Businesses are citing China's lack of respect for IPR in their drive to convince Italy and the EU to raise barriers against Chinese imports. In reality, Italy shares some blame for the situation. Italian police do little to stop a vibrant street trade in fakes. Italian consumers, meanwhile, are at best apathetic about IPR protection as many eagerly reap bargains from buying knock-offs. A sclerotic court system makes lawsuits against importers of Chinese counterfeits too expensive for most Italian SMEs. Many firms are thus resigned to the situation and hope to minimize the damage by staying small and innovative. End summary.

Italy Waking Up to Chinese Fakes  
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[1](#)2. (U) Italian companies, renowned for their innovative design and high quality products, are feeling the bite of Chinese knock-offs. While the theft of Italian intellectual property takes place in many countries, Italian officials and journalists are increasingly focusing on China as the main culprit. In press interviews prior to his December 2004 trip to Beijing, Italian President Carlo Azeglio Ciampi urged China to do more to protect intellectual property. During the visit, China and Italy signed an MOU on IPR protection that covers information exchange on IP laws, assistance with trademark registration, and joint seminars on IPR protection.

The MOU, however, has not resulted in much, if any, reduction in rampant counterfeiting of Italian brands in China, both for sale in third markets and for export back to Italy.

[1](#)3. (U) No estimates are available for Italian industry losses due to Chinese counterfeiting of Italian trademarks, copyrights, and patents. China's rise as a commercial power has generated much public debate about how Italy, which maintains large shoe and textile industries, should respond. Within this public discourse, however, there is often little distinction made between the threat posed by Chinese counterfeits versus that of legal Chinese imports. Confindustria, Italy's primary business association, for example, estimates that Chinese legal and illegal imports combined have cost Italy 40,000 jobs, but does not give a figure solely for IP-related losses.

[1](#)4. (U) The Italian media is devoting more attention to the scope, diversity, and sheer gall of Chinese counterfeiters. The press widely reported a July 2005 raid during which police in Pisa uncovered euro 3 million (\$3.6 million) worth of Chinese dentures and other dental equipment that had been illegally labeled (in Italy) with Italian trademarks. Also in July, newspapers in Rome followed the investigation of an underground bank catering to the city's Chinese immigrants that was allegedly laundering money, including proceeds from the sale of counterfeit clothing. (A similar underground bank was also uncovered in Milan.) In February 2005, a journalist for La Repubblica, a nation-wide daily newspaper,

wrote an article about the trafficking of fake handbags from Guangdong, China to Italy via Dubai. The author now intends to expand the article into a book-length project and recently contacted the Embassy for assistance.

#### No Longer Just Handbags and Sunglasses

15. (SBU) While counterfeiting has long been a problem for famous Italian designers--Gucci, Armani, Prada, etc.--a wide range of not-so-famous Italian companies are also falling victim to Chinese imitators. A typical anecdote: earlier this year Michele Perini, president of Assolombarda (the Milan Manufacturer's Federation), found that Chinese counterfeiters had hijacked the website of the family office furniture business. Photos of the factory remained, but the images of Perini and his brother had been replaced with those of two Chinese men.

16. (SBU) In addition to furniture, Italian-made plumbing and household fixtures are also becoming favorite targets for Chinese counterfeiters. Fabio Aromatici, director of international markets and IPR at Assolombarda, told Milan Econ Specialist that Italian companies are increasingly dealing with complaints, and the occasional lawsuit, from customers who unknowingly purchased inferior Chinese copies. In the case of water faucets, Aromatici commented, counterfeiting has become a public health issue as investigators have discovered knockoff faucets that contain illegally high levels of lead. In a March 2004 article, the Corriere della Sera, Italy's largest newspaper, reported critically on the number of counterfeit Chinese water faucets on display at a Milan trade exposition, often just meters from those of the legitimate Italian manufacturer. Some Italian companies, Aromatici said, are now attending European trade shows with their lawyers in tow and calling police when Italian firms encounter blatant counterfeits. Though Italian police have conducted some trade show raids, Aromatici remarked that German police tend to be more aggressive.

#### Not Just Fakes, But "Super Fakes"

17. (SBU) Carlo Imo, general counsel for Gucci, told Econoff that his firm is very concerned about the growth in "super fakes"--copies which, unlike those sold by street vendors, are good enough to pass as real Gucci products. Gucci has uncovered these high-end fakes in major Italian department stores. Traditionally, he observed, only Italian underground factories had the skill and know-how to produce near-perfect copies. Now, "super fakes" are coming out of China, a phenomenon that, Imo said, is the result of increased tech-transfer and cooperation between Italian and Chinese organized crime gangs.

#### Permissive Legal Atmosphere

18. (SBU) Italy is a particularly welcoming market for counterfeit and pirated products from China and elsewhere. Italy's national government has steadily increased penalties for IPR-related theft, but local-level enforcement is uneven to non-existent. (Note: Italy's parliament recently made the purchase of counterfeit goods subject to a fine of up to euro 10,000 (\$12,000) (Ref B). While police in Florence and Rome have issued fines to a handful of tourists, neither we nor our industry contacts believe this measure will be enforced in the long term. End note.)

19. (U) Italy's court system has also established legal precedents highly unfavorable to rights holders. Perhaps most notorious from an industry standpoint is the court's citation of "economic necessity" as a basis for acquittal in

IPR cases. In a ruling in early 2005 that upheld a 2001 precedent, a Rome judge found an illegal immigrant not guilty of selling counterfeit audio cassettes because, in the judge's opinion, the man had no alternative legal means to earn a living. Such decisions, according to Embassy contacts, not only encourage illegal immigrants to enter the street trade, but also reinforce the common public attitude in Italy that buying and selling counterfeit products is not necessarily illegal.

110. (U) Italy's Supreme Court of Cassation, meanwhile, has weakened country-of-origin labeling requirements for imported goods. In February this year, the court ruled that Italian companies could affix their own labels to foreign-manufactured garments without a clear statement of origin--i.e., a label could simply say "Company X, Italy." In justifying the decision, the court said that it is enough for the consumer to know the name of the Italian company responsible for the production and quality control of the product, regardless of where the item is actually made.

11. (U) The Court of Cassation ruling has angered many in the business community. Glauco Camerini, an IP attorney for Confindustria, told Econoff the decision creates a more conducive atmosphere for the re-labeling of imported counterfeit products. Confindustria wants Italy to pass stronger legislation that will require clear "made in" labeling for all imports, including products produced abroad by Italian firms. Marcello Gozzi, director of the business association in Prato (an industrial suburb of Florence that is also home to a large concentration of immigrant Chinese businesses) complained that the re-labeling of Chinese clothing as "made in Italy" is already an all-to-common occurrence.

#### Italian SMEs Lack Funds To Protect Their IP

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12. (U) The Italian economy is overwhelmingly composed of small- and medium-sized firms, many of which are struggling to survive in Italy's weak economy. Gustavo Ghidini, a professor of IP law at Rome's LUISS University, told Econoff that Italian SME's have few resources to protect their intellectual property, either in Italy or China. In Italy, the court system is notoriously slow, with civil cases often taking years, even decades to conclude. The result, according to Ghidini, is that lawsuits against counterfeiters are prohibitively expensive in Italy for all but the largest firms. An additional factor is the nature of the Italian patent system. Italian patents are awarded without examination, meaning ultimately judges must decide the validity of a patent when the patent holder files suit against an alleged infringer. This increases the uncertainty for rights holders pursuing cases against counterfeiters.

13. (U) While an increasing number of Italian SMEs are doing business in China, Italian firms are neither experienced nor aggressive in using the Chinese court system to stop counterfeits at the source. This, said Aromatici of Assolombarda, is due not only to deficiencies in the Chinese legal system, but also a lack of money to file for patent and trademark protection outside of Italy. Many, if not most, Italian companies, according to Aromatici, do not bother to go through the expense and hassle of obtaining patents and trademark registration in China and thus do not have the basis to pursue cases in Chinese court.

#### But Being Small Has Advantages

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14. (SBU) Rather than aggressively defend their intellectual property in the face of Chinese counterfeiting, many Italian SMEs have resigned themselves to a certain level of IP theft

and are learning to cope. In this sense, being small and nimble can be helpful. Stefano Orrea, a director at Patrizia Pepe, a small Florence-based clothing maker, told Econoff that his company has seen several of its clothing designs copied by Chinese imitators. However, because the label is less well known, Orrea said, Patrizia Pepe has seen little outright counterfeiting--i.e., copying of both the design and trademark. Patrizia Pepe accepts Chinese imitations as a given and simply focuses on constantly updating its clothing lines to stay ahead of the pretenders. Orrea admitted that, given that knockoffs have yet to really cut into the company's bottom line, he actually takes some satisfaction in seeing Patrizia Pepe copies. The fakes, he explained, are evidence that the company is producing popular designs.

15. (SBU) Another Florence-based small business, Passaponti, is likewise less concerned with counterfeiters. Passaponti makes specialized industrial cleaners, typically used on automobile assembly lines to clean precision engine parts. Company founder Alberto Passaponti was one of several Italian businessmen who accompanied President Ciampi on his December 2004 trip to China. Passaponti told Econoff that he has had problems with counterfeiters in India, where one company is illegally using one of his trademarks and has copied wholesale from his brochure. Passaponti, however, said he is not particularly concerned about Chinese counterfeiters and has not bothered to seek patents or to register his trademarks in China. The machines he makes are highly specialized, he said; and the large auto manufacturers that comprise the bulk of his customer base are unlikely to be fooled by an imitator.

#### Comment: Those in Glass Houses...

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16. (SBU) Chinese counterfeiting is increasingly on the radar of the Italian business community and government leaders. The main concern of Italian firms, particularly in the footwear and garment industries, however, is to seek protection against all Chinese imports rather than specific curbs on fakes. For its part, the Italian government will

continue to seek "soft" engagement (i.e., MOUs, technical exchanges and the like) with China on IPR issues, but the GOI is unlikely to aggressively press China to make improvements.

Italy has taken this strategy partly because Italy itself does not have its own intellectual-property house in order. Furthermore, Italy, in comparison to the other major European economies, is not a large investor in China (Ref C) and does not perceive itself as having significant bilateral economic or political leverage over Beijing. While our expectations for Italian actions vis-a-vis China are modest, Mission Italy will continue to emphasize to all Italian interlocutors that stopping rampant Chinese counterfeiting/piracy is an important mutual interest. End comment.

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